

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 /082 W

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FM AMEMBASSY RANGOON

TO SECSTATE WASHDC 9385

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E.O. 11652: N/A

TAGS: EFIN BM

SUBJ: GUB RAISES INTEREST RATES ON SAVINGS DEPOSITS;

"COMMERCIALIZES" CORPORATIONS

1. SUMMARY: EFFECTIVE APRIL 1 GUB RAISED INTEREST RATES ON SAVINGS DEPOSITS AS NECESSARY MOVE TO GENERATE LARGER PUBLIC SAVINGS NEEDED FOR DEVELOPMENT EFFORTS. AT SAME TIME, NEW SYSTEM OF "COMMERCIALIZATION" OF GOVERNMENT ENTERPRISES WAS ADOPTED. BOTH MOVES RESULTED IN PART FROM PRODDING BY IMF. ACTIONS ILLUSTRATE THAT GUB IS SOMETIMES RESPONSIVE TO PRAGMATIC ECONOMIC REFORMS SUGGESTED BY INTERNATIONAL FINANCIAL INSTITUTIONS AND THESE INSTITUTIONS ARE PERHAPS BEST VEHICLE FOR INTRODUCING SUCH REFORMS IN BURMA. END SUMMARY.

2. GUB MINISTRY OF PLANNING AND FINANCE ANNOUNCED THAT EFFECTIVE APRIL 1 SAVINGS DEPOSIT RATE HAS BEEN RAISED FROM 3.5 PERCENT TO 6 PERCENT. INTEREST SCHEDULE FOR 12-YEAR SAVINGS CERTIFICATES ALSO REVISED ACCORDINGLY. MAXIMUM PERMISSIBLE AMOUNT ALLOWED INDIVIDUAL SAVERS INCREASED FROM K200,000 (\$32,258) TO K500,000 (\$80,645). PRIVATE CITIZENS CAN MAKE DEPOSITS TO THEIR ACCOUNTS WITHOUT RESTRICTION BUT ARE LIMITED TO ONE WITHDRAWAL PER WEEK.

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3. BURMA'S PRIVATE SAVINGS DEPOSITS HAVE REMAINED LOW IN COMPARISON

TO THE COUNTRY'S FINANCING REQUIREMENTS LARGELY BECAUSE THE LOW INTEREST RATE STRUCTURE DISCOURAGED SUCH SAVINGS. RECENT RAPID INFLATION FURTHER TENDED TO DISCOURAGE BANK DEPOSITS BEARING SUCH LOW INTEREST RATES, AND AS A RESULT, QUASI-MONEY HAS GROWN VERY SLOWLY IN RECENT YEARS WHEN COMPARED WITH INCREASES IN THE MONEY SUPPLY.

4. IMF HAS BEEN PRODDING GUB TO GENERATE MORE PRIVATE SAVINGS BY MAKING BANK DEPOSITS MORE ATTRACTIVE TO PUBLIC, AND INCREASE IN INTEREST RATES WAS ONE OF SEVERAL REFORMS GUB PLEDGED TO MAKE IN CONNECTION WITH STAND-BY AGREEMENT REACHED LAST NOVEMBER WITH IMF. THIS ACTION SEEMS TO ILLUSTRATE THAT GUB CAN BE RESPONSIVE TO ADVICE AND PRESSURE FROM INTERNATIONAL FINANCIAL INSTITUTIONS FOR ECONOMIC REFORMS. SUGGESTIONS FROM THESE INSTITUTIONS CAN ALSO STRENGTHEN HAND OF THOSE WITHIN GUB PRESSING FOR MORE PRAGMATIC ECONOMIC POLICIES. FOR EXAMPLE, CHAIRMAN OF UNION BANK HAS NOTED CONCEPTUAL BREAKTHROUGH IN CONVINCING GUB PRESIDENT THAT INTEREST PAYMENTS NOT NECESSARILY PART OF DECADE-OLD CAPITALIST SYSTEM BUT ARE ALSO NECESSARY TO GENERATE SAVINGS IN SOCIALIST ECONOMY.

5. IN A RELATED MOVE TOWARD ECONOMIC RATIONALIZATION, A NEW POLICY OF "COMMERCIALIZING" OPERATIONS OF STATE BOARDS AND CORPORATIONS WENT INTO EFFECT APRIL 1, WITH BEGINNING OF NEW FISCAL YEAR. THIS POLICY ALSO HAS BEEN ENCOURAGED BY IFI. MOST IMPORTANT ASPECT OF NEW SYSTEM IS THAT STATE ENTERPRISES FACING A CASH SHORTAGE AS RESULT OF LOWER INCOME OR HIGHER EXPENDITURES THAN BUDGETED WILL NO LONGER BE ABLE TO HAVE DEFICIT UNDERWRITTEN AS PART OF GOVERNMENT BUDGET, BUT WILL BE FORCED TO BORROW FROM CENTRAL BANK AT INCREASINGLY PENAL RATES OF INTEREST, AND, AT LEAST IN THEORY, SUBJECT TO MANAGEMENT OR OTHER REFORMS WHICH BANK MAY INSIST ON AS A CONDITION OF ITS LOAN. AS A COROLLARY, STATE ENTERPRISES ARE ALSO BEING REQUIRED TO INSIST ON PROMPT PAYMENT FOR GOODS OR SERVICES WHICH THEY PROVIDE TO OTHER GOVERNMENT DEPARTMENTS OR ENTERPRISES, SO THAT GUB ENTITIES WILL NO LONGER BE ABLE TO OPERATE AT A LOSS BY SIMPLY FAILING TO PAY THEIR BILLS TO OTHER ENTITIES.

6. CLEARLY THERE WILL BE EXCEPTIONS AND LIMITATIONS ON THIS SCHEME, ESPECIALLY IN FIRST YEAR OR TWO, BUT IT STILL REPRESENTS AN IMPORTANT STEP TOWARD IMPROVED MANAGEMENT OF GOVERNMENT ENTERPRISES.

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PRISES. STILL ANOTHER FORWARD STEP IS THE GROWING ACCEPTANCE BY SENIOR GOVERNMENT AND PARTY OFFICIALS OF THE STILL HESITANT TREND TOWARD PRODUCTIVITY-RELATED INCENTIVES FOR WORKERS IN GOVERNMENT ENTERPRISES. THE HEAD OF ONE OF THE GUB'S FEW RELATIVELY SUCCESSFUL ECONOMIC VENTURES, WHICH IS MAKING EXTENSIVE USE OF AN INCENTIVE SYSTEM, RECENTLY DESCRIBED TO EMBOFFS THE COMPLICATED POLITICKING IN WHICH HE HAD TO ENGAGE TO GET APPROVAL FOR HIS INCENTIVE SCHEME, NOT FROM GUB OR BSPP BUT FROM NE WIN PERSONALLY.

THIS OFFICIAL ADDED THAT THE COMMERCIALIZATION PLAN HAD GAINED
ACCEPTANCE MAINLY BECAUSE NE WIN DID NOT REALLY UNDERSTAND THE
FAR-REACHING EFFECTS WHICH IT WOULD HAVE IF FULLY IMPLEMENTED.
OSBORN

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